DIRECT TESTIMONY OF

J. DARRIN KAHL

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2018-2-E

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is J. Darrin Kahl, and my business address is 1300 12th Street, Suite F, Cayce, South Carolina.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?

A. I am employed by SCANA Services, Inc. ("SCANA Services") as Manager of Supply and Asset Management.

Q. PLEASE DESCRIBE YOUR DUTIES RELATED TO NATURAL GAS PROCUREMENT FOR ELECTRIC GENERATION IN YOUR CURRENT POSITION.

A. During the review period of January 1, 2017, through December 31, 2017 ("Review Period"), I was responsible for natural gas procurement for the generating facilities operated by South Carolina Electric & Gas Company ("SCE&G"). These responsibilities included procurement of gas supply and capacity, nominations, and scheduling.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I graduated from the University of South Carolina in 1991 with a Bachelor of Science degree in Accounting. Following graduation, I held various roles within the accounting areas of audit, information technology, and financial reporting with an electronic security services company. In 1997, I joined SCANA Energy Marketing, Inc. ("SEMI") as an Energy Services Coordinator performing a variety of job functions, including tariff analysis, gas supply procurement and scheduling. In 1999, I assumed the role of Transportation Coordinator which included intrastate and interstate pipeline scheduling, producer services, and gas supply procurement. In 2002, I accepted the position of Supervisor of Scheduling with SCANA Services where my responsibilities included supervising a team of employees who conducted nominations, scheduling, and balancing on interstate pipelines for all of the SCANA gas subsidiaries. From 2003 through 2007, I assumed the position of Manager of Operations & Gas Accounting, where I was responsible for the day to day operations of gas scheduling on interstate pipelines and gas accounting. Currently, I am the Manager of Supply and Asset Management with SCANA Services, where I manage a team of employees responsible for natural gas procurement, transportation, scheduling and balancing.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes, I have testified before this Commission on several occasions.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my direct testimony is to provide information about the natural gas purchasing process for SCE&G generation and to discuss natural gas prices for the Review Period, and outlook for natural gas prices in the near term.

I. NATURAL GAS PURCHASING

Q. PLEASE DESCRIBE HOW YOUR DEPARTMENT MAKES NATURAL GAS PURCHASING DECISIONS.

A. Natural gas purchases made by the Gas Supply Department ("Department") are driven by the needs of the electric generation group. My Department provides SCE&G's Economic Resource Commitment Group ("ERC") with current market information that they use in resource commitment modeling for the Company's electric generation plants. ERC requests natural gas price quotes and market information from my Department on a continual basis. ERC uses current natural gas prices as one input into its dispatch modeling to determine the most economical means of reliably meeting the electricity needs of customers.

Actual natural gas purchasing decisions are driven by the unit commitment decisions made by ERC. After ERC determines that natural gas is the economical choice for providing reliable power to our customers, my Department is directed to purchase natural gas supplies for delivery with a stated term and volume at the best available current market prices at that time.

Q. PLEASE DESCRIBE YOUR NATURAL GAS CONTRACTS.

A. We have industry standard contracts with more than 60 suppliers that have proven to be creditworthy and reliable. These contracts set forth many of the terms and conditions of delivery. Price and quantity, however, are determined at the time of purchase.

The most common prices quoted for daily natural gas deliveries are the day-ahead gas price. The Gas Daily Average or GDA, for example, is an average of these day-ahead prices, reported on a historical basis the next business day.

The day-ahead natural gas market, however, closes at mid-day of the day before the natural gas is delivered. Because some unit commitment decisions may not be made until the following morning, GDA prices are not available for all supply purchases for electric generation. In these situations, the natural gas we purchase for electric generation is made in the intraday market. In summary, natural gas purchases are short-term in nature when compared to other fuel purchases due to the fungible nature of natural gas and the liquidity of the natural gas market.

Q. WHAT TOOLS DO YOU USE TO INFORM YOUR NATURAL GAS PURCHASING DECISIONS?

A. The most important tools used to inform our purchasing decisions are my Department's collective experience in national natural gas markets, careful observation and evaluation of movements in market-based prices, and continual surveys of our suppliers for pricing information. These tools are by far the most

important and most accurate in helping to determine market-based prices for natural gas supplies being purchased on the "spot market."

Another tool we use to inform our purchasing decisions is the Intercontinental Exchange ("ICE"), which is a real time electronic trading board. The shortcoming of the ICE service as with other pricing services is that not all trades are reflected in these services. Nevertheless, ICE is one of the most widely used sources of pricing information and provides a reliable indication of current market prices.

My Department also uses the New York Mercantile Exchange ("NYMEX") pricing data as a guide to determine whether to purchase natural gas on a monthly or seasonal basis. NYMEX is a financial market which captures real-time trading data and information about the projected price of natural gas and other commodities at various times in the future.

Q. WHAT NATURAL GAS TRANSPORTATION CAPACITY DOES SCE&G HAVE FOR THE GENERATING FACILITIES OPERATED BY SCE&G?

A. SCE&G has long-term capacity contracts with the following interstate pipelines for firm transportation service: 51,050 dekatherms ("Dt") per day on Southern Natural Gas Company ("SNG"), 138,498 Dt per day on Dominion Carolina Gas Transmission ("DCGT"), and 40,000 Dt per day on Transcontinental Gas Pipeline, LLC. SCE&G also has a Commission-approved contract with SEMI for firm natural gas supply up to 120,000 Dt per day.

Q. DOES THE COMPANY HAVE PLANS TO PURCHASE ANY ADDITIONAL INTERSTATE PIPELINE CAPACITY FOR NATURAL GAS FIRED GENERATION?

A. Yes. The Company entered into a Precedent Agreement with DCGT for an additional 25,000 Dt per day of firm transportation capacity with an anticipated in-service date of March 1, 2018.

The Company continues to review its generation needs on an annual basis to determine whether it requires additional natural gas transportation capacity to serve natural gas fired generation facilities.

Q. PLEASE DESCRIBE NATURAL GAS PRICES DURING THE CURRENT PERIOD UNDER REVIEW.

A. Prices in the natural gas market began the Review Period at approximately $3.57 per Dt, also the year's high. Mid-January saw an early end to extreme winter temperatures and the associated drop in demand resulted in prices falling to approximately $2.52 per Dt, the low for the year, by late February. An uptick in demand in March followed by spring demand for storage refill and power generation steadied the market as prices moved back to the $3.40 per Dt area in May. Production increases in the latter half of the year helped keep prices in a range between $2.70 per Dt and $3.25 per Dt until mid-December when late arriving winter demand allowed prices to approach the low for the year, dipping to $2.56 per Dt before the first winter cold blast led to an increase in demand and a rise in prices

in the year's final days. This increase in demand resulted in the market finishing the year at approximately $2.95 per Dt. Attached hereto as Exhibit No. __ (JDK-1) is a graph of the daily settle prices for 2017.

During the Review Period, SCE&G purchased 65,123,753 Dt of natural gas for electric generation at a total cost of $186,097,801 and at an average price of $2.86 per Dt.

The price forecast for the remainder of 2018 suggests natural gas prices are likely to average approximately $3.00 per Dt as the winter period comes to a close. However, short-term price volatility can result from changes in either supply or demand. The fundamental factors of such changes may include, but are not limited to, weather, increases in customer demand, changes in supplies from shale production, changes in storage inventory levels, and/or constraints in pipeline capacity. Energy analysts continue to forecast relatively stable gas prices in the $3.00 per Dt to $4.00 per Dt range over the next 3 to 5 years.

Q. WHAT REQUEST DOES SCE&G MAKE OF THE COMMISSION IN THIS PROCEEDING?

A. During the Review Period, the Department made diligent and prudent efforts to obtain reasonable market-based prices for the reliable supply of natural gas for electric generation and to procure the necessary capacity for the delivery of that supply. Therefore, on behalf of SCE&G, I respectfully request that the Commission

find that the Company's fuel purchasing practices were reasonable and prudent for the Review Period.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Exhibit _____(JDK-1)

NYMEX Daily Settle Prices